

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF GAS COST ADJUSTMENT)
FILING OF VALLEY GAS, INC.) CASE NO. 92-407-D

O R D E R

On April 6, 1992, in Case No. 92-407, the Commission approved certain rates for Valley Gas, Inc. ("Valley") and provided by tariff for their further adjustment on a quarterly basis in accordance with its approved Gas Cost Adjustment ("GCA") clause.

On March 13, 1997, Valley filed its GCA to be effective April 1, 1997 through June 30, 1997. On April 1, 1997, the Commission issued an Order requesting further information to which Valley responded on April 4, 1997.

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. Valley's notice of March 13, 1997 proposed revised rates designed to pass on to its customers its expected wholesale decrease in gas costs. Valley's proposed Expected Gas Cost ("EGC") is \$3.22 per Mcf.

In its data request of April 1, 1997, the Commission requested from Valley further information concerning its purchases through K & K Enterprises ("K & K"). Invoices supplied by Valley in its original filing established the fact that Valley's gas was being purchased from CMS Gas Marketing ("CMS"), and CMS was invoicing K & K for the gas. K & K was then invoicing Valley for a higher amount. A supporting sheet filed with Valley's

EGC calculation showed that K & K was marking up the CMS price by five percent, the equivalent of 15.3 cents per Mcf in this instance. Valley's April 4, 1997 response to the Commission indicates that, while Valley could purchase from CMS directly, it has chosen to enter into an agreement with K & K to manage its gas supply matters. According to Valley, K & K is able to assess gas supply options in greater detail and on a more regular basis than Valley.

The Commission finds that it is not reasonable for Valley to incur additional gas cost to pay K & K to manage its gas supply. The Commission is concerned not only about the 15.3 cents per Mcf charge to Valley from K & K but also that the address and surname in the attention line of the two invoices are identical. Although Valley states that K & K is not a subsidiary of Valley's and the shareholders of K & K are not shareholders of Valley, the record in this case indicates that this is a related party transaction and should not be included in purchased gas cost.

Valley included in its April 1, 1997 response an EGC based on CMS's gas cost alone, and the Commission finds that this EGC of \$3.07 per Mcf should be used for purposes of calculating Valley's Gas Cost Recovery ("GCR") rate.

2. Valley's notice set out no current refund adjustment.
3. Valley's notice set out a current quarter actual adjustment ("AA") of 19.24 cents per Mcf to collect net under-recoveries of gas cost that had occurred from January 1994 through December 1996. Removing amounts paid to K & K during the months of November and December 1996 results in a current AA of 14.94 cents per Mcf. The 14.94 cents is also the total AA due to the expiration of all previous AAs. Any amounts paid to K & K in the future should not be included for recovery through the AA.

4. Valley's notice set out a current Balance Adjustment ("BA") of 34.73 cents per Mcf to reconcile past actual and balancing adjustments. This should be approved.

5. Valley's gas cost recovery rate is \$3.5667 per Mcf, 21.65 cents per Mcf more than the previously authorized rate.

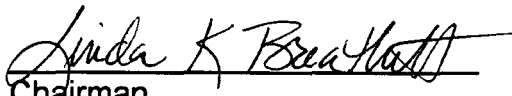
6. Valley's revised adjustment in rates contained in the Appendix to this Order is fair, just, and reasonable, in the public interest, and should be approved effective with bills rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Valley are hereby denied.
2. The rates in the Appendix, attached hereto and incorporated herein, are fair, just, and reasonable, and are authorized to be effective with bills rendered on and after the date of this Order.
3. Within 30 days of the date of this Order, Valley shall file with this Commission its revised tariffs setting out the rates approved herein.

Done at Frankfort, Kentucky, this 22nd day of April, 1997.

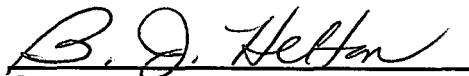
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:


Executive Director


Commissioner

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 92-407-D DATED APRIL 22, 1997

The following rates and charges are prescribed for the customers in the area served by Valley Gas, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

	<u>Base Rate</u>	<u>Gas Cost Recovery</u>	<u>Total</u>
Customer Charge			
All Mcf	1.6451	3.5667	5.2118